



# **EITC Examination Overview**

**LITC Conference**

**December 6, 2005**

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# **HOT TOPICS**

Recent Changes  
Future Changes  
General Information



# RECENT CHANGES TO THE EITC PROGRAM

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- CP75 process
- 1040X claims processing
- Audit reconsiderations
- Publication 3498-A
- 80/20
- Examination Telephones
- Uniform Definition of a Qualifying Child



## New CP75 Process

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- The new **CP 75** has been revised for FY05 to serve as both the refund delay and Initial Contact Letter for EITC pre-refund cases selected for Examination.
- **The CP 75A** will be used as the Initial Contact Letter for all EITC post-refund cases and balance due cases.
- Both the CP 75 and 75A will contain specific paragraphs that explain the issues being examined.



## Claims, 1040X

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- Taxpayer files his/her original return without EITC or with one EITC child and then files an amended return.
- Amended returns are now transcribed.
- In FY 2006, the system will look at both the 1040X and the original return.



# New Claims Process

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- During 2005, EITC **claims** will be processed through the DDb the same as regular EITC cases.
- If the claim breaks a rule the claim will be selected for examination.
- The results will be tracked in the Wage and Investment campuses.



# Audit Reconsiderations

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- Taxpayer has been assessed a deficiency on an EITC issue and subsequently provides additional information for consideration.
- Often a taxpayer does not reply until he/she receives a bill and then decides to send in documentation.



# Audit Reconsiderations

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- If a taxpayer sends in partial documentation, a letter is sent to the taxpayer requesting additional information. The case is held for 45 days awaiting a response.
- If all verification is received to support the issues, the request is accepted in full and the prior tax assessment is abated and/or EITC is allowed.





## Audit Reconsiderations Requirements

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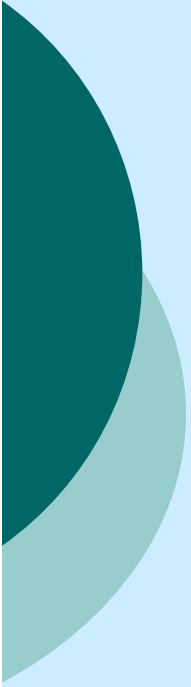
- The taxpayer must have filed a return.
- The assessment remains unpaid or, as the result of an assessment, a tax credit is reversed.
- The taxpayer knows which adjustments are in dispute.
- The taxpayer provides additional information not considered in the original exam.



## Why a taxpayer couldn't request an audit reconsideration

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- The taxpayer has signed a closing agreement with the IRS for the assessment.
- The assessment was the result of TEFRA closing.
- The taxpayer signed an agreement to waive any IRS restriction on assessment and collection.
- A court decision has been entered with respect to this assessment.



# Form 12203, Request for Appeals Review

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- The new Pub 3498-A, The Examination Process (Examinations by Mail) includes Form 12203.
- Form 12203 states, *"You can use this form to request a review in Appeals when you receive Internal Revenue Service proposed adjustments, or other changes of \$25,000 or less, to a tax year questioned in the IRS letter you received with this form."*
- Taxpayers are signing these forms but do not fully understand the meaning of this form. This form should only be completed if they disagree and want to appeal the final examination determination.
- During FY06, we will be developing a new publication to be sent with the initial contact letter. No Form 12203 will be attached.

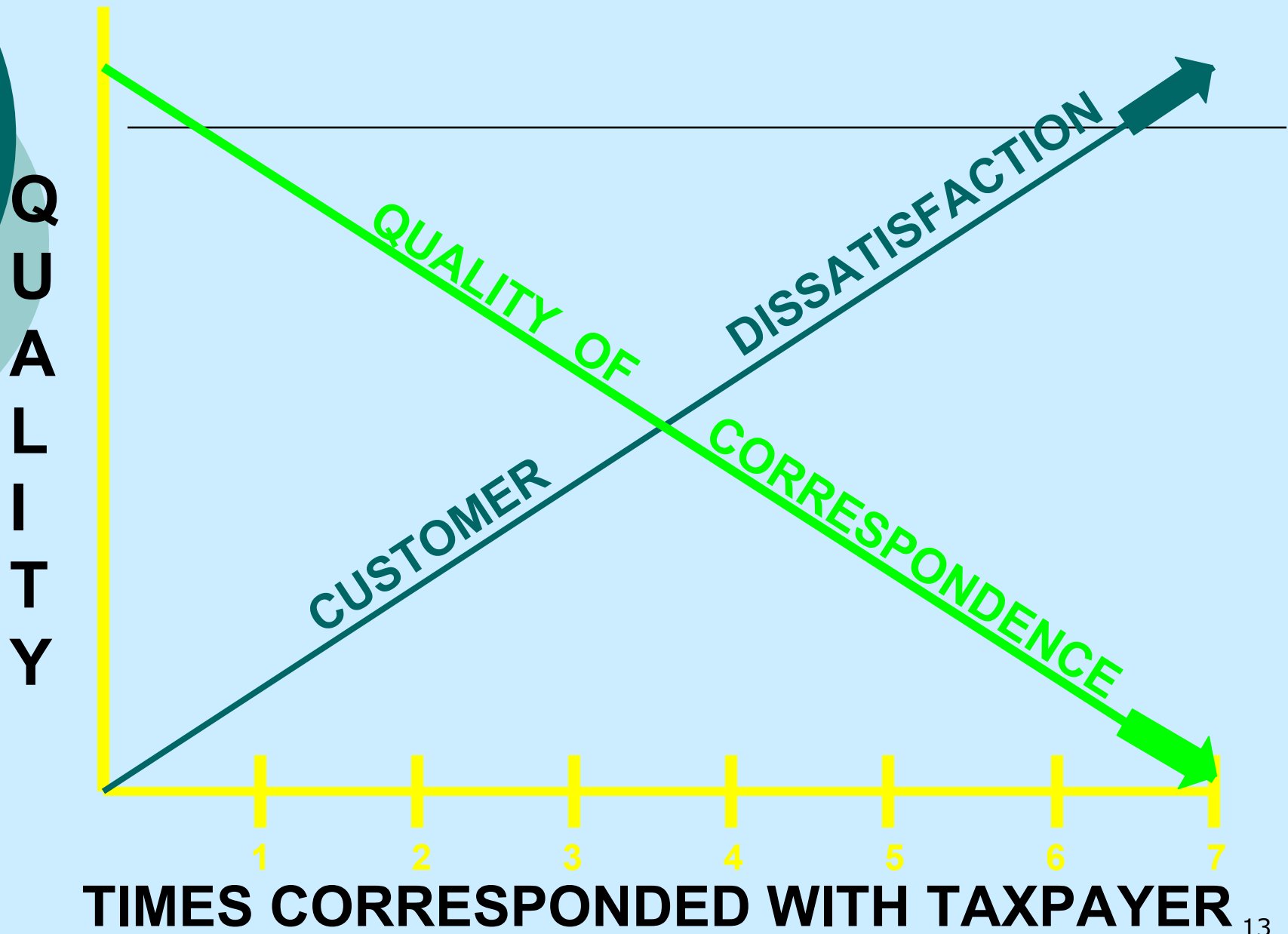


# What is 80/20?

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- **The 80/20 rule states, “As a general rule, an individual can accomplish 80% of a task in 20% of the time. To get the other 20% completed, the individual will spend the remaining 80% of the time.”**
- **Wage and Investment is using this concept to encourage employees to use more judgment in their examinations.**

# IMPACT OF CORRESPONDENCE





# Examination Telephones

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- Beginning January 2006, Examination will start using Intelligent Call Management (ICM). All calls will be directed to a central site and then routed to the next available assistor.
- Call volumes will be easier to handle, should be less hold time and fewer repeat calls.
- Spanish calls will be routed directly to Spanish speaking assistors.



# Legislative Changes

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- There are a multitude of Legislative Changes every year that may or may not effect Reporting Compliance.
- This year, one of the major pieces of Legislation changed the uniform definition of a qualifying child (UDOQC).



# UDOQC

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- *Congress recently passed legislation to consolidate the various definitions of qualifying child under a new uniform definition of a qualifying child.*
- *This new definition impacts the definition of dependents, head of household, dependent care credit, child care credit, and earned income credit.*
- *This new definition of qualifying child applies to tax years ending after December 31, 2004.*



# UDOQC

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- *W&I hosted a cross-functional meeting attended by representatives from W&I and SB/SE Reporting Compliance, EITC Program Office and Redesign Teams, CARE, TAS, CAS and Chief Counsel.*
- *The attendees worked together to create:*
  - a matrix of the affected tax benefits/credits and their related requirements; and,
  - a tax benefits/credits crosswalk; and,
  - an impact list for all affected functions.
- *The matrix, crosswalk and impact list assisted in making policy decisions, and was used to make systemic programming changes, revisions to IRMs, training and case processing.*



# FUTURE CHANGES

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- Duplicate Taxpayer Identification Number (DUPTIN)
- Decreases in cycle time



# DUPTIN

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- Occurs when two or more individuals use the same TIN to obtain a tax benefit.
- Outside stakeholders, Congress and others have concerns about this problem and the process.
- Team established to review entire process.



# DUPTIN

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- One major concern for tax practitioners deals with the fact that the second person cannot file their return electronically.



# Examination Cycle Time

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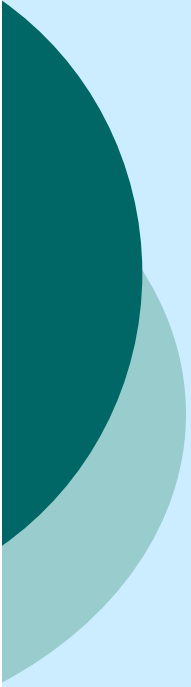
- Cycle time is a priority for the Internal Revenue Service.
- In FY06 Wage and Investment will be looking for ways to decrease the time a case is in process.
- Some time frames are statutory



# General Information

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- Barriers you can help with
- Dependent Database (DDb)



# Barriers to Efficient Correspondence Exam Process

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- Taxpayers fail to respond to notices.
- Taxpayers fear IRS, therefore they do not respond to correspondence.
- Taxpayers do not understand correspondence:
  - Thus call toll-free number with questions.
  - Do not send in all required information to establish qualification.
- Taxpayers do not understand examination process.



# DDb and How it Works

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- The Dependent Database is a rules based selection system.
- It is linked to and receives information from other IRS systems.
- It is also linked to other government agencies and receives information from those systems.
- The system compares this information to information on filed returns.
- If there are discrepancies, certain rules are fired.